



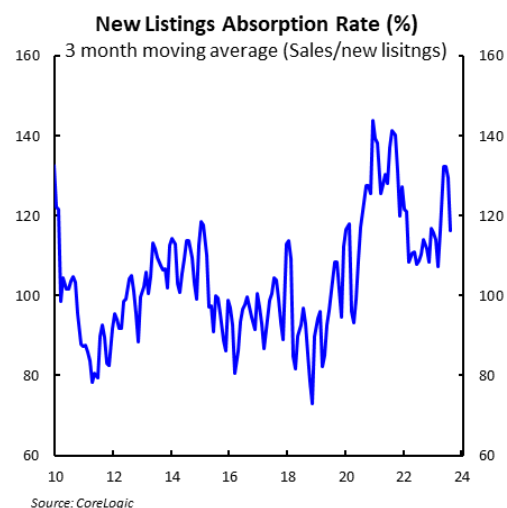
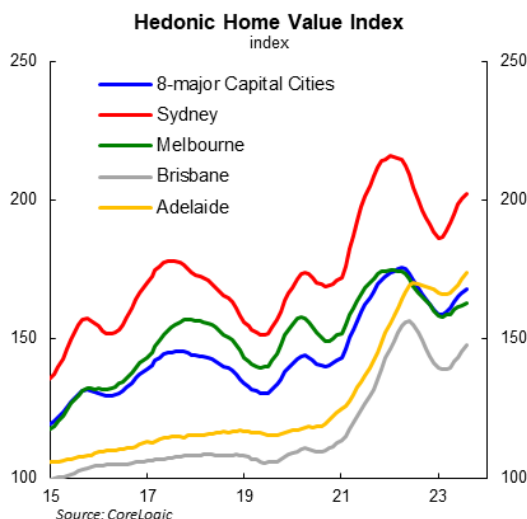
Friday, 1 September 2023



## Dwelling Prices

### Second Pause Gives Second Wind to Prices

- Dwelling prices rose 0.8% in August, an acceleration on July's 0.7% gain. Since bottoming out in February, national dwelling prices are up 4.9%. While the recovery is being led by capital cities (+6.0%), it has now become broad based with price gains recorded in the regions (+1.6%).
- New listings have increased by an uncharacteristically large 12.9% over the past two months. However, this increase in supply has been absorbed by the market (absorption of new listings remains above 100%). The cash rate remaining on hold for the second consecutive month no doubt played a role, giving potential buyers the confidence that rates are at or close to the peak.
- The imbalance in the housing market has largely underpinned the turnaround in prices. The key question going forward is whether this imbalance will continue or whether supply will increase sufficiently to outstrip demand. In short, we expect this imbalance to improve but remain in place. This will support dwelling prices and reduce the risk of a "double dip downturn."
- On the supply side, pressure on rental yields coupled with stretched affordability particularly as fixed rate mortgages roll over onto higher variable rates, is likely to lead to a further pickup in new listings. Given the strength in the labour market we expect this pickup to be orderly.
- On the demand side, with the cash rate at or close to the peak, nominal income levels picking up, reports of intergenerational wealth transfers allowing younger Australians to get into the market and ongoing strong population growth, we expect demand to largely absorb supply, but it could get bumpy month to month the longer rates remain restrictive.
- Given these supply and demand dynamics, we see a scenario where dwelling price gains moderate overtime but continue nonetheless, even if the Reserve Bank is on an extended pause – in other words, the boost from the pause is likely to be short lived.



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